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Before the
Tennessee Regulatory Authority

T.R.A. DOCKET ROOM

Docket No. 03-00118

TENNESSEE-AMERICAN WATER COMPANY

Rebuttal Testimony of

Michael Gorman

On behalf of

Chattanooga Manufacturers Association

Project 7980
June 2003



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

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Tennessee Regulatory Authority
Docket No. 03-00118

TENNESSEE-AMERICAN WATER COMPANY

Rebuttal Testimony of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A My name is Michael Gorman. My business address is 1215 Fern Ridge Parkway, Suite
3 208, St. Louis, MO 63141-2000.

4 **Q ARE YOU THE SAME MICHAEL GORMAN WHO PREVIOUSLY FILED TESTIMONY**
5 **IN THIS PROCEEDING?**

6 A Yes.

7 **Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A I will provide brief comments on the direct testimony of Consumer Advocate Protection
10 Division, Office of Attorney General, witness Mr. Stephen Brown.

11 **Q PLEASE IDENTIFY THE PORTION OF MR. BROWN'S DIRECT TESTIMONY TO**
12 **WHICH YOU RESPOND.**

13 A At Pages 58 and 59 of Mr. Brown's testimony, he states that in his opinion any change in
14 rates should be distributed equally among the revenue classes because he believes the
15 Company's cost study is unsupported.

1 **Q DO YOU BELIEVE IT IS REASONABLE TO DISTRIBUTE ANY INCREASE EQUALLY**
2 **AMONG THE REVENUE CLASSES IN THIS PROCEEDING?**

3 A No. The revenue distribution proposed by M. Brown would be at odds with a majority of
4 the type of cost increases TAWC identified in support of its claimed revenue deficiency
5 in this proceeding. The Company's revenue deficiency is largely created by increases in
6 operating expenses and higher plant investments (as explained below) that are
7 customer-related costs. Customer-related expenses should not be recovered in
8 volumetric charges, which is how most of the costs would be recovered using an equally
9 distributed increase. Therefore, if the Tennessee Regulatory Authority (TRA) decides
10 not to use the Company's cost of service study, then the majority of the Company's
11 increase should be spread on customer charges, and a smaller amount should be
12 spread on volumetric charges.

13 **Q WHY DO YOU BELIEVE THE COMPANY'S REVENUE DEFICIENCY IN THIS**
14 **PROCEEDING IS BEING CREATED MAINLY BY INCREASED CUSTOMER-**
15 **RELATED COSTS?**

16 A This is evidenced by a review of the Company's testimony supporting its revenue
17 requirement request in this proceeding. For example, TAWC witness Sheila Valentine's
18 Schedule 2, Page 3, shows the net additions in utility plant in service for the attrition
19 year. The Company's net additions to utility plant increased by \$5.74 million, as shown
20 on this schedule, the largest plant investment increases were for Accounts 331.4 (T&D
21 Mains not Classified), Account 334.45 (Meter Installations), and Account 340.53
22 (Computer and Peripheral Equipment). These three accounts represent \$3.7 million of
23 the increase to utility plant in service, out of a total increase of \$5.74 million, or
24 approximately 65%.

1 T&D mains not classified are typically not used by large customers, and for the
2 reasons discussed in my direct testimony, are most reasonably allocated among
3 customers based on the number of customers. Meter installations are directly related to
4 a customer's service and should, therefore, be allocated based on number of customers.
5 Finally, TAWC proposes to allocate computer and peripheral equipment based on a
6 consolidated allocation factor tied to O&M expenses. It is important to recognize that the
7 largest asset classes, which cause the increase in utility plant in service, are not
8 allocated uniformly among classes. Rather, they are directly tied to either customer
9 allocation factors or O&M allocation factors.

10 Further, as shown on Ms. Valentine's Exhibit No. 2, Schedule 3, Page 1, the
11 Company is adjusting its O&M costs at present rates and in the attrition year by
12 approximately \$1.9 million. Of these total adjustments, over \$1 million is related to an
13 increase in management fees. Management fees is an expense increase caused
14 predominately by TAWC's parent company, American Water Works, centralization of
15 customer call center and data processing centers, which are customer costs. Therefore,
16 over 50% of TAWC's increase in O&M expenses is directly related to customer service
17 costs. Here again, it will not be appropriate to allocate the increase in customer-related
18 O&M expenses on a uniform basis across all customer classes. Rather, these costs
19 should be allocated on the basis of number of customers.

20 **Q IF THE TRA DOES NOT USE THE COMPANY'S COST OF SERVICE STUDY, HOW**
21 **SHOULD ANY REVENUE DEFICIENCY IN THIS PROCEEDING BE SPREAD AMONG**
22 **THE CUSTOMER CLASSES?**

23 **A** First, let me state that I recommend the Commission accept the Company's cost of
24 service model with the adjustments I proposed in my direct testimony. However, if the

1 TRA does not accept the Company's cost of service model, then, at a minimum, I would
2 recommend that 60% of the revenue deficiency found appropriate by the TRA be
3 recovered through increased customer charges, and 40% be spread among customers
4 on volumetric charges. The 60% on customer charges is based on my finding that
5 approximately 65% of the increase in rate base and over 50% of the increase in O&M
6 expense revenue deficiency in this proceeding are derived from customer-related costs.
7 Customer-related costs should be recovered through increased customer charges.

8 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A** Yes, it does.